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RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT PASS TO USTR DHARTWICK/CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS MICHAEL NEWBILL AND EB/TRA JEFFREY HORWITZ AND TOM
ENGLE
PASS TO FAA THOMAS NASKOVIK
PASS TO DOT DAVID MODESSIT

E.O. 12958: N/A

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS

11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of May 14-18, 2007.

INDIA AND CIVIL AVIATION

12. (U) In a productive meeting with Deputy Economic Counselor,
Civil Aviation (CA) Joint Secretary RK Singh reviewed several key
issues - including Air India's plans for direct routes to the US,
including WashDC; reviewing GOI requirement for domestic carriers to
be operational at least five years before servicing international
routes (which if lowered could permit Kingfisher and other Indian
carriers to move forward sooner with plans for service to the US);
Ministry of Civil Aviation's continued efforts with the Ministry of
Finance to eliminate the high import duty and countervailing duty
(CVD) on private aircraft and helicopters regardless of use; and
moving forward U.S.-India Aviation Cooperation Program (ACP).

AIR INDIA WILL SOON FLY DIRECT TO THE US

13. (U) Singh stated that Air India (or the new merged national
Indian carrier of Air India and Indian Airlines) will begin flying
direct to the US in August on the Mumbai-New York route. This
direct service will be priced marginally higher than, for example,
Jet Airway's proposed service to the US from Mumbai via Brussels due
to the extra cost of passenger and fuel loads. Plans are also in
work to introduce a Delhi-New York route and perhaps a Delhi-DC
route. GOI has asked Boeing to change the paint job on Air India's
new Boeing-777s and are now expecting delivery in July vice June
12007.

REVIEWING REQUIREMENTS FOR DOMESTIC
CARRIERS TO FLY ABROAD

14. (U) Singh explained that GOI is reviewing the five-year
operational rule for domestic carriers. Previously, when GOI

decided that domestic carriers would have to demonstrate a proven record, meet global inspection requirements, and be in business for at least five years, there were only two private competitors to the national carriers - Jet Airways and Sahara. With the rapid growth in the domestic aviation industry, that has all changed and a number of new private carriers and low-cost carriers have entered the market in the last couple of years. Singh said the government is moving towards greater liberalization in the aviation industry and is considering reducing the required number of operational years to three. For Kingfisher, GOI has thus far denied its application to fly internationally since the airline has been in existence for less than the current requirement of five years.

CIVIL AVIATION WEIGHS IN WITH FINANCE ON IMPORT DUTY

15. (U) Singh cited the recent announcement by the Ministry of Finance to exempt certain categories of use (trainers and unscheduled charters) for fixed wing aircraft and helicopters from the three percent import duty and 16 percent CVD as a very positive development. Singh noted that US companies like Bell continue to complain that the duties continue to apply for sale to private companies and individuals and have seriously affected sales in India. In response, CA is lobbying MOF to eliminate the duties for aircraft destined for any end users, since India does not manufacture small planes and helicopters.

VISIBLE IMPACT FOR ACP

16. (U) Singh was very positive about the results of the April Aviation Summit and the Aviation Cooperation Program (ACP). He recommended the ACP move quickly to have a more visible impact and

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establish something tangible (beyond training for example). Civil Aviation Minister Patel and Secretary Chawla are very supportive of developing an Aviation Museum - similar to the one near Dulles Airport in Washington, DC which displays both civilian and defense aircraft. GOI is willing to put in land and some construction money towards the project and views this as a visible symbol of the U.S.-India Partnership, the ACP, and a good venue for youth. Singh suggested the old airport space at Safdarjung Enclave. Embassy will review this proposal with principal ACP organizers - USTDA, FAA, and Boeing (as one of the co-chairs with FAA) - and welcomes Washington agencies feedback.

KERALA SIGNS DEAL WITH DUBAI FOR MAJOR IT PROJECT

17. (U) After a year of protracted negotiations, the Dubai-based Technology and Media Free Zone Authority (TECOM) and the government of Kerala signed an agreement on May 13 to set up an Information Technology infrastructure project in Cochin, Kerala. Dubbed "Smart City," the \$350 million investment project is modeled on Dubai's "Internet City," another TECOM venture. It aims to bring in investment from global IT companies who have largely shied away from Kerala. The project envisages creating 8.8 million square feet of built-up space, with supporting infrastructure for IT and IT-enabled service companies, and promises to create 90,000 jobs in the next 10 years. The Smart City will be a joint-venture (in which GOK would initially have a 16% stake that would rise to 26% after five years). The previous Congress-led government began negotiations with TECOM, but Kerala's Chief Minister claims his Communist Party of India (Marxist) government renegotiated the deal, ridding it of conditions that were harmful to Kerala's interests.

Rumors of Cabinet Switch Amidst Upcoming Elections

18. (SBU) Southern Indian press speculated today on two possible Cabinet changes in the run up to Presidential Elections. First, the newspaper, the Deccan Chronicle, claimed that the regional party, Dravida Munnetra Kazhagam (DMK), which recently demanded that Dayanidhi Maran step down as IT Minister, plans to get UPA approval to put the Tamil Nadu Chief Minister and DMK leader M. Karunanidhi's daughter Kanimozhi in as Minister of Commerce, hiving off the Ministry of Industries for Kamal Nath, who currently presides over a

combined ministry. This move would put Kanimozhi in charge of trade and bilateral and multilateral engagements, including WTO, while Nath would focus on investment. DMK's inclusion in the United Progressive Alliance (UPA) coalition enables it to name three Cabinet ministers. The replacement of the IT Minister only moved an existing minister to another portfolio.

¶9. (SBU) As a potentially parallel move, the Deccan Chronicle also claimed that, if Foreign Minister Pranab Mukherjee is chosen as the consensus candidate for President, leaving the Foreign Ministry portfolio open, Finance Minister P. Chidambaram would move over to head the Foreign Ministry. Then, current Chairman of the Prime Minister's Economic Advisory Council (EAC), Dr. C. Rangarajan, would take over the Finance Ministry.

¶10. (SBU) Rangarajan's background suggests he would continue the same level of commitment to economic reform and liberalization as Chidambaram, although perhaps not with as much tenacity. Rangarajan received his Ph.D. in economics from the University of Pennsylvania, teaching for a while in the US. Since 1982, he has held senior positions in the central bank, the Planning Commission, and the Andhra Pradesh state government, before becoming Chairman of the EAC. Rangarajan was central bank governor during the early reform years of 1992 to 1997, residing over the rupee's full convertibility on the current account. His reform and central bank experience may be an opportunity for additional advocacy (read pressure) on the central bank to open the banking sector and capital account more quickly.

U.S EXIM LOAN TO RELIANCE TO BOOST U.S. EXPORTS

¶11. (U) The Export-Import Bank of the United States has given a

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\$500 million loan guarantee to Reliance Petroleum Ltd. (RPL) to build a \$6 billion state-of-the-art oil refinery and petrochemical complex in Jamnagar, Gujarat. Major U.S. exporters also participating in the project include: Black & Veatch International Co for sulphur recovery and gas treatment units; Dow Global Technologies for licensing and services for the polypropylene plant process; Foster Wheeler Corp for fired heaters for the refinery's coker; and UOP LLC for the catalytic converter reactor section and PSA (Pressure Swing Absorption) packages. The new refinery will be the world's sixth largest and will be located adjacent to Reliance Industries Ltd's (RIL) existing refinery and petrochemical complex in Jamnagar. Together the two refineries will comprise the largest refining complex in the world.

¶12. (SBU) This deal is the first success story coming out of the USTDA-supported Refinery Orientation Visit (OV) for Indian oil companies held in January 2007. The TDA-funded OV helped Reliance Limited to complete due diligence before placing orders on U.S. companies. The US-EXIM played a key complimentary role in extending the credit line to Reliance once it made up its mind to buy U.S. equipment and technologies.

GOI'S GAIL CLAIMS LNG SUPPLIES NOW SUFFICIENT TO RUN RATNAGIRI (DABHOL) GAS FIRED PLANT

¶13. (U) The empowered group of ministers (EGoM) on the partially-idle Ratnagiri Power Project (previously known as the Dabhol project), in the power-deficit state of Maharashtra, has decided that all three blocks of the thermal power plant project will run on liquefied natural gas (LNG), said Minister for External Affairs, Pranab Mukherjee, who heads the EGoM. Up until now, union Power minister, Sushil Kumar Shinde has cited unavailability of LNG as the major hurdle for the revival of the Dabhol plant. Mukherjee said that the Gas Authority of India Limited (GAIL) has given an assurance to supply adequate LNG for all the three blocks of Dabhol project, although no date for start-up has been set. The Gujarat state government has been requested to expedite the state clearances for a stretch of pipeline that is to feed gas from Petronet's import terminal at Dahej in Gujarat to the Dabhol project in Maharashtra.

¶14. (U) GOI data indicates that, while India's overall electricity load deficit is 9%, in the industrial state of Maharashtra it is as

high as 20%. The supply of 2,150 MW from the Dabhol project could bridge half the power shortfall in the state. Currently, only one block of the project is running on naphtha, which produces very costly power.

¶15. (SBU) COMMENT: The Dabhol LNG facility has a capacity of 5 million metric tons of LNG per year (about 6.8 billion cubic meters at standard pressure of natural gas per year). GAIL has been trying to identify potential LNG supply sources for Dabhol which would allow the plant to maintain a generation send-out cost of U.S. cents 5.2 per kilowatt-hour, which would imply a natural gas price of US\$3.00 per MMBTU. Given current international prices for LNG, in some cases at over twice that level, it is unlikely that GAIL will be able to obtain long-term supplies at this price. This pricing situation raises doubts about power purchases by the power-starved Maharashtra State Electricity Board, which seems to be the only potential buyer. End comment.

TAMIL NADU'S NEW LIQUOR LAW TO COMPLY WITH WTO OBLIGATIONS

¶16. (U) Tamil Nadu's ruling DMK introduced a bill to amend the Tamil Nadu Prohibition Act to bring the state into compliance with India's WTO obligations. The existing Prohibition Act substantially restricts the sale of imported wines and spirits in Tamil Nadu. According to media reports, the government of India had been asking the state to take action since 2001. The bill's statement of object said "It has, therefore, been decided to comply with the request of the government of India and to amend the said Act accordingly."

¶17. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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